

Consolidated Financial Statements
and Report of Independent Certified Public
Accountants

Covenant House New Orleans

June 30, 2013

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
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Report on the financial statements

We have audited the accompanying consolidated financial statements of Covenant House New Orleans and subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Orleans and subsidiary as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Report on 2012 summarized comparative information

We have previously audited the Organization's 2012 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 5, 2012. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 21, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Grant Thornton LLP

Houston, Texas
November 21, 2013

Covenant House New Orleans

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2013, with summarized financial information
as of June 30, 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 921,306	\$ 602,948
Investments	7,869	3,683
Grants receivable	206,872	182,741
Short-term contributions receivable, net	71,943	-
Other receivables, net	29,816	41,318
Inventory	6,458	5,475
Prepaid expenses	15,399	13,192
Property, plant and equipment, net	2,727,438	215,480
Property held for sale	1,460	1,460
Long-term contributions receivable, net	84,603	14,579
Long-term investments	218,750	100,000
Beneficial interest in assets held by others	316,776	296,336
Other assets	18,174	16,867
Total assets	<u>\$ 4,626,864</u>	<u>\$ 1,494,079</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and refundable advances	\$ 459,550	\$ 385,137
Debt obligations - to parent	170,472	479,682
Due to parent	1,972	-
Total liabilities	631,994	864,819
Net assets:		
Unrestricted:		
Reserved for operations	497,965	(36,628)
Investment in property, plant and equipment	2,727,438	215,480
Board-designated for endowment purposes	535,526	296,336
Total unrestricted	3,760,929	475,188
Temporarily restricted	233,941	54,072
Permanently restricted	-	100,000
Total net assets	<u>3,994,870</u>	<u>629,260</u>
Total liabilities and net assets	<u>\$ 4,626,864</u>	<u>\$ 1,494,079</u>

The accompanying notes are an integral part of these consolidated financial statements.

Covenant House New Orleans

CONSOLIDATED STATEMENT OF ACTIVITIES Year ended June 30, 2013, with summarized financial information as of June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2013	Total 2012
Contributions, revenue and reclassifications:					
Contributions:					
Contributions from individuals, foundations, and corporations, including legacies and bequests of \$310,512 in 2013 and \$184,028 in 2012	\$ 1,336,293	\$ 219,362	\$ -	\$ 1,555,655	\$ 1,135,461
Contributed services and merchandise	706,202	-	-	706,202	639,680
Government grants and contracts	720,491	-	-	720,491	710,946
Contributions from Parent	2,021,110	-	-	2,021,110	2,225,000
Special events revenue	112,565	-	-	112,565	17,207
Less: Direct benefit to donor costs	(3,555)	-	-	(3,555)	(1,737)
Total contributions	4,893,106	219,362	-	5,112,468	4,726,557
Revenue:					
Investment income:					
Interest and dividends	8,373	-	-	8,373	4,678
Net unrealized (losses) gains	18,604	-	-	18,604	(433)
Net realized gains (losses)	5,565	-	-	5,565	38,017
Job-training programs revenue	140,164	-	-	140,164	192,433
Less: Costs of goods sold	(9,442)	-	-	(9,442)	(7,991)
	130,722	-	-	130,722	184,442
Other income	34,305	-	-	34,305	67,030
Total revenue	197,569	-	-	197,569	293,734
Total contributions and revenue	5,090,675	219,362	-	5,310,037	5,020,291
Net assets released from restrictions	139,493	(39,493)	(100,000)	-	-
Total contributions, revenue and reclassifications	5,230,168	179,869	(100,000)	5,310,037	5,020,291
Expenses:					
Program services	3,752,047	-	-	3,752,047	3,641,473
Supporting services:					
Management and general	514,543	-	-	514,543	523,441
Fund-raising	197,517	-	-	197,517	190,605
Total supporting services	712,060	-	-	712,060	714,046
Total expenses	4,464,107	-	-	4,464,107	4,355,519
Change in net assets	766,061	179,869	(100,000)	845,930	664,772
Contributions from Parent - Property	2,519,680	-	-	2,519,680	-
Total change in net assets	3,285,741	179,869	(100,000)	3,365,610	664,772
Net assets at beginning of year	475,188	54,072	100,000	629,260	(35,512)
Net assets at end of year	\$ 3,760,929	\$ 233,941	\$ -	\$ 3,994,870	\$ 629,260

The accompanying notes are an integral part of these consolidated financial statements.

Covenant House New Orleans

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013, with summarized financial information for the year ended June 30, 2012

	Program services						Supporting services				Cost of direct benefits to donors		
	Shelter and crisis care	Outreach	Mother/child	Medical	Community Service Center	Public education	Rights of passage/ in-school	Total program services	Management and general	Fund-raising		Total supporting services	
Salaries and wages	\$ 861,432	\$ 48,177	\$ 117,468	\$ 18,373	\$ 41,227	\$ 18,695	\$ 347,470	\$ 1,452,842	\$ 265,397	\$ 114,794	\$ 380,191	\$ 1,833,033	\$ 1,839,294
Payroll taxes	90,987	5,171	12,407	1,688	4,066	1,407	36,761	152,487	21,979	9,636	31,615	184,102	177,563
Employee benefits	166,556	8,445	20,709	3,619	8,703	3,804	61,953	273,789	60,496	19,649	80,145	353,934	366,943
Total salaries and related expenses	1,118,975	61,793	150,584	23,680	53,996	23,906	446,184	1,879,118	347,872	144,079	491,951	2,371,069	2,383,800
Accounting fees	-	-	-	-	-	-	-	-	46,686	-	46,686	46,686	56,244
Legal fees	6,007	-	819	1,138	1,138	2,425	4,551	16,078	3,413	6,261	9,674	25,752	-
Medical fees	-	-	-	20,981	3,497	-	10,490	34,968	-	-	-	34,968	29,090
Consulting fees	238	-	32	45	45	527	180	1,067	135	8,438	8,573	9,640	5,923
Supplies	47,194	399	6,436	1,136	2,297	141	10,619	68,222	7,609	2,871	10,480	78,702	66,609
Telephone	5,870	872	801	262	1,442	148	10,665	20,060	3,672	912	4,584	24,644	28,210
Postage & printing	1,759	60	240	132	197	1,571	693	4,652	3,527	9,230	12,757	17,409	12,933
Occupancy:													
Fuel and utilities	59,644	-	8,133	1,904	6,879	-	27,682	104,242	10,172	1,969	12,141	116,383	115,892
Repairs and maintenance	35,378	-	4,824	2,417	3,860	-	19,423	65,902	7,451	967	8,418	74,320	63,682
Rent to Corporate	52,892	-	7,212	1,122	7,591	-	23,563	92,380	9,643	1,870	11,513	103,893	207,785
Rent and other	906	-	124	87	134	-	52,345	53,596	1,635	322	1,957	55,553	60,288
Equipment	22,885	-	3,121	758	1,590	52	5,617	34,023	18,978	4,160	23,138	57,161	56,307
Transportation	20,903	9,295	2,850	463	4,262	258	12,715	50,746	1,248	996	2,244	52,990	53,510
Specific assistance to individuals:													
Food	93,540	3,316	12,755	-	4,061	-	22,453	136,125	-	-	-	136,125	114,576
Medical	142	-	19	6,105	1,017	-	3,410	10,693	-	-	-	10,693	8,257
Contributed medical	-	-	-	6,521	28,758	-	3,261	38,540	-	-	-	38,540	67,362
Clothing, allowance and other	59,842	18,636	8,160	24	55,999	61	111,687	254,409	-	-	-	254,409	214,163
Contributed clothing and merchandise	3,037	-	414	16	24	-	90	3,581	535	80	615	4,196	3,320
Temporary help	282	-	38	-	-	-	860	1,180	-	-	-	1,180	1,389
Other purchased services	22,343	503	3,047	1,368	2,934	1,023	13,653	44,871	27,436	2,376	29,812	74,683	70,430
Dues, licenses and permits	2,292	40	313	234	269	258	1,242	4,648	635	746	1,381	6,029	5,377
Subscriptions and publications	617	25	84	7	21	905	407	2,066	192	519	711	2,777	584
Staff recruitment	-	-	-	-	-	-	-	-	-	-	-	-	468
Insurance	29,490	846	4,021	829	7,792	16	15,478	58,472	6,824	1,348	8,172	66,644	48,931
Contributed services	495	-	67	113,255	491,943	187	56,956	662,903	282	281	563	663,466	568,998
Miscellaneous	14,035	428	1,914	288	4,296	41	6,538	27,540	2,401	1,121	3,522	34,617	14,488
Bank charges and fees	-	-	-	-	-	369	-	369	4,893	7,010	11,903	12,272	23,648
Interest to Corporate	-	-	-	-	-	-	-	-	5,400	-	5,400	5,400	7,786
Interest	-	-	-	-	-	-	-	-	-	-	-	-	987
Total functional expenses before depreciation and amortization	1,598,766	96,213	216,008	182,772	684,042	31,888	860,762	3,670,451	510,639	195,556	706,195	4,380,201	4,291,037
Depreciation and amortization	52,619	122	7,175	640	4,289	95	16,656	81,596	3,904	1,961	5,865	87,461	66,219
Total functional expenses	1,651,385	96,335	223,183	183,412	688,331	31,983	877,418	3,752,047	514,543	197,517	712,060	4,467,662	4,357,256
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(3,555)	(1,737)
Total expenses reported by function on the statement of activities	\$ 1,651,385	\$ 96,335	\$ 223,183	\$ 183,412	\$ 688,331	\$ 31,983	\$ 877,418	\$ 3,752,047	\$ 514,543	\$ 197,517	\$ 712,060	\$ 4,464,107	\$ 4,355,519

The accompanying notes are an integral part of these consolidated financial statements.

Covenant House New Orleans

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended June 30, 2013, with summarized information for the year ended June 30, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 3,365,610	\$ 664,772
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gains on sale of property held for sale	-	(5,041)
Net unrealized (gains) losses on investments	(18,604)	433
Amortization of loan discount	-	986
Bad debt expense	12,736	(1,927)
Depreciation and amortization	87,461	66,219
Donated investments	(4,015)	(1,081)
Contributed property, plant and equipment	(2,519,680)	(39,863)
Changes in operating assets and liabilities:		
Grants receivable	(24,131)	134
Other receivables	(1,234)	1,935
Inventory	(983)	(1,633)
Prepaid expenses	(2,207)	(1,415)
Contributions receivables	(141,967)	(949)
Other assets	(1,307)	(2,151)
Accounts payable, accrued expenses and refundable advances	74,413	8,169
Due to/from Parent	1,972	(266,507)
Net cash provided by operating activities	828,064	422,081
Cash flows from investing activities:		
Proceeds from sale of investments	17,065	12,638
Purchases of investments	(137,822)	(106,476)
Purchases of land, building and equipment, gross	(79,875)	(38,883)
Disposals of equipment, land and buildings	136	113,714
Proceeds from sale of property held for sale	-	14,994
Net cash used in investing activities	(200,496)	(4,013)
Cash flows from financing activities:		
Payment of debt obligation to Parent	(309,210)	(79,192)
Payment of debt obligations	-	(26,025)
Net cash used in financing activities	(309,210)	(105,217)
Net change in cash and cash equivalents	318,358	312,851
Cash and cash equivalents at beginning of year	602,948	290,097
Cash and cash equivalents at end of year	<u>\$ 921,306</u>	<u>\$ 602,948</u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u>\$ 5,400</u>	<u>\$ 7,786</u>
Contributed property, plant and equipment	<u>\$ 2,519,680</u>	<u>\$ 39,863</u>

The accompanying notes are an integral part of these consolidated financial statements.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(with comparative totals for 2012)

NOTE A – ORGANIZATION

Covenant House New Orleans and subsidiary (collectively, the “Organization”) is a not-for-profit organization, which was established and incorporated in 1984. The Organization is affiliated with similar organizations in other locations, all of which are affiliates of Covenant House (the “Parent”). The Parent is the sole member of the Organization and is itself a private, not-for-profit agency which, through its affiliates, offers shelter, food, clothing, counseling, medical attention, crisis intervention, and case management services to over 56,000 runaway, homeless and at-risk youth during the current fiscal year.

In February 2004, Covenant Landscaping, LLC was formed to limit liability under the Organization’s White Dove Landscaping program. Covenant House New Orleans is the sole member of Covenant Landscaping, LLC, which is considered a disregarded entity for tax purposes. Covenant Landscaping, LLC, otherwise known as White Dove Landscaping, provides the organization with a landscaping and lawn maintenance business that serves as a job training program for at-risk youth.

The Organization is affiliated with the following additional not-for-profit organizations through common control by its Parent:

- | | |
|------------------------------------|--|
| • Covenant House New York/Under 21 | • Covenant House New Jersey |
| • Covenant House Alaska | • Covenant House Pennsylvania/Under 21 |
| • Covenant House California | • Covenant House Texas |
| • Covenant House Florida | • Covenant House Washington, D.C. |
| • Covenant House Georgia | • Covenant House Western Avenue |
| • Covenant House Michigan | • Testamentum |
| • Covenant House Missouri | • Covenant House Holdings, LLC |

In addition, the Parent is the sole member of Covenant International Foundation (“CIF”), a not-for-profit corporation. CIF is a member of the following international not-for-profit affiliates:

- | | |
|-------------------------------------|---|
| • Covenant House Toronto | • Casa Alianza Nicaragua |
| • Covenant House Vancouver | • Casa Alianza Internacional |
| • Casa Alianza De Honduras | • Fundacion Casa Alianza Mexico, I.A.P. |
| • Asociacion La Alianza (Guatemala) | |

NOTE B – COMPONENTS OF PROGRAM AND SUPPORTING SERVICES

The *Shelter and Crisis Care* program provides crisis care, shelter, food, clothing, counseling and legal advice to runaway, homeless and at-risk youth, 22 and under.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE B – COMPONENTS OF PROGRAM AND SUPPORTING SERVICES – Continued

The *Outreach* program is an effort to reach youths who would otherwise not find their way to the Crisis Center. Outreach teams cruise the city streets, searching for these youths and providing them with food, a trained counselor and a safe ride to our shelter.

The *Mother/Child* program provides emergency shelter, food and counseling to homeless mothers (22 and under) and their children.

Medical services include basic medical services, referrals, HIV testing, mental health and counseling.

The *Community Service Center* provides comprehensive services to former Covenant House youth, and other youths in the community who need support to maintain themselves in stable living situations. Within this program, the Organization also provides counseling and intervention services, and work-related instruction and experience through the White Dove Landscaping program. The Organization's partners in service include Tulane Medical Center's Primary Adult Walk-in and Adolescent drop-in clinics, and the Urban League's Head Start Program.

The *Public Education* program informs and educates the public on how to identify potential "runaway" and "throwaway" adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to these families to improve their home environment.

Rights of Passage provides transitional residential services for up to 18 months to youths, including individual counseling, help with completing their education, finding jobs and ultimately long term housing.

Management and General services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to such programs.

Fund-raising services relate to the activities of the development department in raising general and specific contributions.

Direct Benefit to Donor Costs are those costs incurred in connection with special events related to items benefiting attendees of special events, such as meals and entertainment.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The accompanying consolidated financial statements include the balances and activities of Covenant House New Orleans and Covenant Landscaping, LLC. All significant intercompany amounts and transactions have been eliminated.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. Summarized Financial Information Fiscal Year 2012

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class, such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

3. Net Asset Classification

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the Organization's operations. Unrestricted net assets may be used at the discretion of the Organization's management and Board of Directors.

- Investment in Property, Plant and Equipment - consists of the net book value of property, plant and equipment less any related debt obligations, if applicable.

Temporarily restricted - represent amounts restricted by donors and grantors for specific activities of the Organization or to be used at some future date.

Permanently restricted – consist of funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes.

4. Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of square footage of office space occupied, salaries and other bases determined by the Organization's management.

5. Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived assets. Conditional contributions are recognized as contributions when the conditions on which they depend have been substantially met.

Contributions are recorded net of estimated uncollectible amounts. Non-monetary contributions are valued at fair market value and recognized as those contributions are utilized.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributions received from Parent include contributions received from individuals, corporations and foundations as a result of fund-raising activities conducted by the Parent on behalf of the Organization and other Covenant House Affiliates. It also includes a subsidy or contribution from Parent to help support the program activities of the Organization. Covenant House Parent refers to this as “Branding Dollars” or “Contributions Received from Parent.”

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Cash and Cash Equivalents

The Organization considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

8. Allowance for Doubtful Accounts

The Organization maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its customer to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the customer.

9. Investments and Investment Income

Marketable equity securities and debt obligations are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses is recorded in the net asset class owning the assets. The following methods and assumptions were used by the Organization in estimating its fair value for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the accompanying consolidated statement of financial position for cash and cash equivalents approximates fair value due to the short maturity of the investments.

Common stocks, mutual funds and debt securities: Fair values of common stocks, mutual funds and debt securities are based on quoted market prices.

Assets held for sale: Market values for real estate held for sale are based on listed sales prices. The assets held for sale primarily consist of donated artwork, which was recorded at the appraised values on the date of donation.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Beneficial interest in assets held by others: The fair value of the assets is based on its ratable share of the fair value of the underlying assets held by others at the measurement date.

The Organization follows the fair value guidance, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of June 30, 2013. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of June 30, 2013. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of June 30, 2013. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

See Note H for additional information regarding investments.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

10. Inventories

Inventories consist of materials and supplies which, if purchased, are stated at the lower of cost or market under the average method, or if donated, are stated at current market value.

11. Property, Plant and Equipment

Property, plant and equipment are recorded at cost if purchased or, if donated, at fair market value at the date of the gift, less accumulated depreciation and amortization. Property, plant and equipment with values in excess of \$500 are capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 33 years. Leasehold improvements are amortized on the straight-line basis over the lesser of the term of the lease or their estimated useful lives.

12. Temporarily Restricted Contributions

The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. It is the Organization's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, property, plant and equipment) are reported as temporarily restricted. The Organization reflects the expiration of the donor-imposed restrictions when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

13. Contributed Services and Merchandise

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying consolidated financial statements.

Contributions of merchandise are valued at fair market value at the date of receipt and are recognized as revenue when received and expensed from inventory when used.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE D – RELATED PARTY TRANSACTIONS AND INTER-AFFILIATE TRANSFERS

The Parent provides financial support as well as management and organizational support for its affiliated organizations. It also conducts fund-raising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$55 million and \$58.7 million for the Parent in the fiscal years ended 2013 and 2012, respectively. Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus subsidy and appropriated “Branding Dollars” or “Contributions Received by Parent” to each Covenant House affiliate. In fiscal 2013 and 2012, the Organization received contributions from Parent totaling \$2,021,110 and \$2,225,000, respectively.

Contributions received by the Parent and allocated to affiliates, based on the Parent’s policy in effect at the time, approximated \$33.8 million and \$33.9 million in fiscal 2013 and 2012, respectively.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent allocated expenses of approximately \$148,000 in 2013 and \$135,000 in 2012 related to such services to the Organization. Most of these expenses were paid back to the Parent by the Organization during the year. The balance due Parent at June 30 totaled approximately \$1,972 and \$ 0 for 2013 and 2012, respectively.

The Organization previously leased its program facility from the Parent on a month-to-month basis. Rent paid to the Parent amounted to approximately \$104,000 and \$208,000 during fiscal years 2013 and 2012, respectively. Effective, January 1, 2013, the Parent donated the land and building to the Organization at an approximate fair value of \$2.5 million and is reflected as Contributions from Parent-Property in the Consolidated Statement of Activities.

NOTE E – ALLOCATION OF JOINT COSTS

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. No joint costs were incurred during fiscal year 2013 and 2012.

NOTE F – CONTRIBUTED SERVICES

The Organization recognizes contribution revenue for certain services received at the fair value of those services. Contributed clinical services for years ended June 30, 2013 and 2012 include the following:

	Medical	Community Service Center	Rights of Passage	2013	2012
Internists, pediatricians, nurse practitioner, RN and intake staff	\$ 113,255	\$ 491,943	\$ 56,956	\$ 662,154	\$ 568,498

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013
(with comparative totals for 2012)

NOTE G – CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions receivable consist of promises to give related to the Organization's Rights of Passage Program and a life insurance policy. Contributions receivable have been recorded at present value. Those receivables that are due in more than one year have been discounted to their present value using a discount rate from 4.25% to 6.75%. The receivables are due as follows as of June 30, 2013 and 2012:

	2013	2012
One to five years	\$ 150,000	\$ -
More than five years	75,000	75,000
	225,000	75,000
Less: Unamortized discount	(68,454)	(60,421)
Present value of contributions receivable	<u>\$ 156,546</u>	<u>\$ 14,579</u>

The Organization has been named the beneficiary and owner of a \$75,000 life insurance policy which has a cash surrender value. The policy is recognized at fair value and is included in contributions receivable in the accompanying consolidated statement of financial position. The amount has been classified as long-term due to the uncertainty associated with the timing of the receipt of funds. The cash surrender value of approximately \$12,400 is included in other assets.

Other receivables primarily include the White Dove Landscape training program sales and/or services, net of allowances for doubtful accounts. The net balance at June 30 totaled approximately \$27,000 and \$35,000 for 2013 and 2012, respectively.

Changes in the Organization's allowance for uncollectible other receivables are as follows:

	2013	2012
Beginning balance	\$ 2,775	\$ 4,702
Net write off and/or increase in allowance for doubtful accounts	12,736	(1,927)
Ending balance	<u>\$ 15,511</u>	<u>\$ 2,775</u>

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013
(with comparative totals for 2012)

NOTE H – INVESTMENTS AND OTHER ASSETS

Investments at June 30, 2013 and 2012 consist of:

	Total fair value	
	2013	2012
Money market	\$ 226,619	\$ 102,636
Common stock	-	1,047
Total investments	<u>\$ 226,619</u>	<u>\$ 103,683</u>
Beneficial interest in assets held by others	<u>\$ 316,776</u>	<u>\$ 296,336</u>

Property held for sale at June 30, 2013 and 2012 consist of:

	2013	2012
Other assets held for sale	\$ 1,460	\$ 1,460
Total property held for sale	<u>\$ 1,460</u>	<u>\$ 1,460</u>

As required by fair value guidance, financial assets at fair value presented by level of input used to measure fair value consisted of the following at June 30, 2013:

	Level 1	Level 2	Level 3	Total
Money market funds	<u>\$ 226,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226,619</u>
Beneficial interest in assets held by others:				
Greater New Orleans Foundation	\$ -	\$ -	\$ 223,772	\$ 223,772
Jewish New Orleans Foundation	-	-	33,114	33,114
The Catholic Foundation	-	-	32,766	32,766
Baton Rouge Area Foundation	-	-	27,124	27,124
Total beneficial interest in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,776</u>	<u>\$ 316,776</u>

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE H – INVESTMENTS AND OTHER ASSETS – Continued

The following table summarizes the changes in financial assets measured on a recurring basis at fair value for which the Organization has used Level 3 inputs for the year ended June 30, 2013:

Balance, beginning of year	\$ 296,336
Purchases	8,063
Sales	(11,548)
Realized gains	5,355
Unrealized gains	18,570
Balance, end of year	<u>\$ 316,776</u>

As required by fair value guidance, financial assets at fair value presented by level of input used to measure fair value consisted of the following at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 102,636	\$ -	\$ -	\$ 102,636
Common stock	1,047	-	-	1,047
	<u>\$ 103,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,683</u>
Beneficial interest in assets held by others:				
Greater New Orleans Foundation	\$ -	\$ -	\$ 212,417	\$ 212,417
Jewish New Orleans Foundation	-	-	28,284	28,284
The Catholic Foundation	-	-	30,502	30,502
Baton Rouge Area Foundation	-	-	25,133	25,133
	<u>-</u>	<u>-</u>	<u>25,133</u>	<u>25,133</u>
Total beneficial interest in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,336</u>	<u>\$ 296,336</u>

The following table summarizes the changes in financial assets measured on a recurring basis at fair value for which the Organization has used Level 3 inputs for the year ended June 30, 2012:

Balance, beginning of year	\$ 302,814
Purchases	4,484
Sales	(12,553)
Realized gains	1,990
Unrealized (losses)	(399)
Balance, end of year	<u>\$ 296,336</u>

The Organization's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE H – INVESTMENTS AND OTHER ASSETS – Continued

During fiscal 2005, the Organization transferred \$250,000 of its cash reserves to several foundations to establish an endowment fund. The agreement with each foundation designates the Organization as beneficiary and states that the transfer is irrevocable and that transferred assets will not be returned. The foundations, however, will make annual distributions of the income earned on the endowment funds, subject to their respective spending policies. The agreements also grant variance power, that is, permit each foundation to substitute another beneficiary, if the Organization ceases to exist, or the foundation's governing board votes that support of the Organization is no longer necessary or is inconsistent with the needs of the community. The Organization recognizes the transfer as reciprocal, and therefore not a contribution, but as a beneficial interest in assets held by others and a component of its board designated endowment. Fair values of each fund as of June 30, 2013 and 2012 are as follows:

	2013	2012
Greater New Orleans Foundation	\$ 223,772	\$ 212,417
Jewish Endowment Foundation	33,114	28,284
The Catholic Foundation	32,766	30,502
Baton Rouge Area Foundation	27,124	25,133
	<u>\$ 316,776</u>	<u>\$ 296,336</u>

NOTE I – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, consisted of the following as of June 30:

	2013	2012
Land	\$ 1,568,752	\$ 41,334
Buildings	992,262	-
Building improvements	398,447	-
Equipment	1,530,879	1,452,363
Leasehold improvements	-	398,447
	<u>4,490,340</u>	<u>1,892,144</u>
Less accumulated depreciation and amortization	<u>(1,762,902)</u>	<u>(1,676,664)</u>
	<u>\$ 2,727,438</u>	<u>\$ 215,480</u>

NOTE J – DEBT OBLIGATIONS

The Organization has promised to repay loans received for its operations that were drawn from the Parent's revolving line of credit with J.P. Morgan Chase. Interest will accrue to the Parent at the rate then in effect, and as adjusted from time-to-time, by the Bank. The balance at June 30 totaled approximately \$170,000 and \$480,000 for years 2013 and 2012, respectively. The loan is due June 30, 2014.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE K – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2013, temporarily restricted net assets of \$233,941 were available subject to donor-imposed restrictions relating to the passage of time and operations of the entity including, but not limited to, direct assistance to youth in the Crisis Center and Rights of Passage program, the funding of mental health, education, and an universal life insurance policy. Net assets released from restriction during the period, based on the satisfaction of donor-imposed purposes totaled \$39,493. The projects primarily involve mental health and direct assistance to youth in the Crisis Center.

NOTE L – BOARD DESIGNATED NET ASSETS

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's endowment funds have not been donor-restricted for specific programs and are expendable for unrestricted purposes following board appropriation subject to a standard of prudence.

During fiscal year 2012, the Organization received notice from the executor of the Mildred Wild Estate that it would be receiving an undisclosed percentage interest in the estate. The executor indicated that the donor's stated wishes were to have her legacy serve as an endowment for sustained growth, however, upon receipt of the last will and testament, no such designation was noted. Pursuant to the Board's previous designation of wills and bequests as a source of funding its board designated reserves, all distributions from the Wild Estate will be designated as Board endowment funds. During fiscal 2012, two partial distributions totaling \$100,000 were received from the estate and recognized by the Organization as permanently restricted net assets. These distributions were reclassified to board designated net assets. No additional distributions are expected. During fiscal 2013, two distributions totaling \$118,750 were received from the estate.

During 2010 the State of Louisiana adopted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs endowment spending of charitable institutions. The Organization classifies donor-restricted endowment funds as permanently restricted net assets, unless otherwise stipulated by the donor. Board designated or permanently restricted net assets represent (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts donated to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. According to UPMIFA, the ordinary income of an endowed fund may be distributed annually. While UPMIFA does not place limitations on what can be distributed when market conditions are favorable, it does limit what can be distributed if the current value is near or below the Historical Dollar Value – defined as the aggregate of original, subsequent and accumulation contributions. In utilizing the appreciation in value of the endowments for distributions, the Organization follows the provisions of the Louisiana Uniform Prudent Management of Institutional Funds Act of 2010.

In accordance with LUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted or board designated endowment funds – the purpose, duration, and preservation of the endowment fund; expected total return on investments; general economic conditions; the possible effects of inflation and deflation; other resources, and the investment policy of the Organization.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE L – BOARD DESIGNATED NET ASSETS – Continued

The Organization has adopted investment management and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to its activities while seeking to maintain the purchasing power of the endowment assets. The Organization's primary investment objectives are to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy that achieves a return through a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results.

Changes in net assets for the Organization's board designated endowment funds for fiscal years ended June 30, 2013 and 2012:

	2013			2012		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ 296,336	\$ 100,000	\$ 396,336	\$ 302,814	\$ -	\$ 302,814
Investment return:						
Investment income	8,082	-	8,082	4,485	-	4,485
Net appreciation (realized and unrealized)	23,925	-	23,925	1,590	-	1,590
Total investment return	32,007	-	32,007	6,075	-	6,075
Appropriation of endowment assets for expenditures	(9,954)	-	(9,954)	(10,706)	-	(10,706)
Other charges:						
Fees	(1,613)	-	(1,613)	(1,847)	-	(1,847)
Reclassifications	100,000	(100,000)	-	-	-	-
Contributions	118,750	-	118,750	-	100,000	100,000
Net assets, end of year	<u>\$ 535,526</u>	<u>\$ -</u>	<u>\$ 535,526</u>	<u>\$ 296,336</u>	<u>\$ 100,000</u>	<u>\$ 396,336</u>

NOTE M – PENSION PLAN

The Organization has a 403(b) defined contribution pension plan administered by the Parent for all employees with one year of service. The Organization's annual contributions range from 1.0% to 9.0% of salary based on points, provided that employees work 1,000 hours annually. Points equal the sum of age and years of service. Participants will be 100% (cliff vesting) vested after three years of service. Total expense related to the 403(b) plan was \$78,590 and \$83,062 for the year ended June 30, 2013 and 2012, respectively. The total accrued payable related to the defined contribution plan was approximately \$120,000 and \$122,000 at June 30, 2013 and 2012, respectively.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE N – TAX-EXEMPT STATUS

The Organization is qualified as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) according to an Internal Revenue Service determination letter dated February 20, 2007. Accordingly, the Organization is not subject to federal income taxes under Section 501(a) of the Code. As a not-for-profit organization, the Organization has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction for donors.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

The Organization follows accounting guidance which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. Management believes that there are no uncertain tax positions within its financial statements and the Organization is no longer subject to income tax examinations for years prior to June 30, 2010.

NOTE O – COMMITMENTS AND CONTINGENCIES

The Organization has operating leases used in the daily operations of business. Rent expense was \$14,300 and \$14,362 for fiscal years ended June 30, 2013 and 2012, respectively. Aggregate future minimum lease payments under these operating leases that have remaining terms in excess of one year as of June 30, 2012 are as follows:

<u>Years ending June 30,</u>	
2014	\$ 6,872
2015	500
2016	500
2017	500
2018	500
Thereafter	<u>10,000</u>
Total	<u><u>\$ 18,872</u></u>

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

(with comparative totals for 2012)

NOTE P – SUBSEQUENT EVENTS

The Organization evaluated all events or transactions that occurred after June 30, 2013 up through November 21, 2013, the date the consolidated financial statements are available to be issued. During this period, the Organization did not have any material recognizable subsequent events except as noted below.

In September 2013, the Organization paid off the balance of its debt to Parent, which totaled \$170,472.

Schedule of Expenditures of Federal Awards
and Report of Independent Certified Public
Accountants

Covenant House New Orleans

Year Ended June 30, 2013

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Part I - Financial



Grant Thornton

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

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We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Covenant House New Orleans and subsidiary as of and for the year ended June 30, 2013, and our report thereon dated November 21, 2013 expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on these consolidated financial statements as a whole

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Houston, Texas
November 21, 2013

Covenant House New Orleans

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
U.S. Department of Agriculture:			
Pass Through Program From Louisiana Department of Education:			
School Breakfast Program	10.553	7547	<u>\$ 35,601</u>
Total U.S. Department of Agriculture			35,601
U.S. Department of Housing and Urban Development:			
Supportive Housing Program	14.235		218,624
Pass Through Programs from:			
City of New Orleans:			
Emergency Solutions Grant	14.231	ESG-027D	61,151
Emergency Solutions Grant	14.231	ESG-026H	20,460
UNITY for Homeless, Inc.:			
Supportive Housing Program	14.235	LA0069L6H031205	8,620
Supportive Housing Program	14.235	LA0069B6H031104	23,153
Supportive Housing Program	14.235	LA0089L6H031205	43,357
Supportive Housing Program	14.235	LA0089B6H031104	55,712
Supportive Housing Program	14.235	LA0057B6H031003	54,314
Supportive Housing Program	14.235	LA0057B6H031004	77,404
Supportive Housing Program	14.235	LA0077B6H031003	31,656
Supportive Housing Program	14.235	LA0077B6H031004	48,797
Shelter Plus Grant	14.238	LA0086C6H031104-7	36,389
			<u>379,402</u>
Subtotal Pass-Through Programs			<u>461,013</u>
Total U.S. Department of Housing and Urban Development			679,637
U.S. Department of Homeland Security:			
Pass Through Program from Louisiana Department of Health and Hospitals			
Public Assistance Grants (Hurricane Katrina)	97.036	N/A	228
Pass Through Program from United Way			
Federal Emergency Food and Shelter National Board Program	97.024	30-3658-000-024	5,025
Total U.S. Department of Homeland Security			<u>5,253</u>
Total federal expenditures			<u><u>\$ 720,491</u></u>

The accompanying notes are an integral part of this schedule.

Covenant House New Orleans
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Covenant House New Orleans (the “Organization”) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – COMMITMENTS AND CONTINGENCIES

Federal awards are subject to periodic review and assessment by the related federal agencies. The Organization believes the resolution of matters related to these reviews will not have a significant impact on the Organization’s financial position.

Part II - Internal Control and Compliance Reports



Grant Thornton

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Covenant House New Orleans and subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2013.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
November 21, 2013



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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Report on compliance for each major federal program

We have audited the compliance of Covenant House New Orleans and subsidiary (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2013. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Organization's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on each major federal program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on internal control over compliance

Management of the Organization is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
November 21, 2013

Part III - Schedule of Findings and Questioned Costs

Covenant House New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal controls over major program:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Type of auditor’s report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.235	Supportive Housing Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? Yes

Covenant House New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

The results of our audit procedures disclosed no findings to be reported for the year ended June 30, 2013.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The results of our audit procedures disclosed no findings to be reported for the year ended June 30, 2013.

SECTION IV – SUMMARY OF PRIOR FINDINGS

The results of our audit procedures disclosed no findings that were reported for the year ended June 30, 2012.



Grant Thornton

November 21, 2013

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Ladies and Gentlemen:

We are providing this letter in connection with our audit of Covenant House New Orleans' (the "Organization") financial statements as of June 30, 2013 and for the year then ended, performed in accordance with auditing standards generally accepted in the United States of America ("US GAAS").

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion on internal control effectiveness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was not designed to identify all deficiencies in internal control that, individually or in combination, might be material weaknesses. Given the limitations described herein, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.



The purpose of this communication is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control. This communication is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control. Accordingly, this communication is not suitable for any other purpose.

Very truly yours,

Grant Thornton LLP